

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

LeRoy Koppendraye
Marshall Johnson
Ken Nickolai
Phyllis A. Reha
Gregory Scott

Chair
Commissioner
Commissioner
Commissioner
Commissioner

In the Matter of the Petition of Northern States
Power Company d/b/a Xcel Energy for
Approval of a Rate Rider to Recover Costs for
Emissions Reduction Proposal

ISSUE DATE: October 23, 2003

DOCKET NO. E-002/M-02-633

ORDER GRANTING DEFERRED
ACCOUNTING TREATMENT

PROCEDURAL HISTORY

I. The Company's Proposal

On July 26, 2002, Northern States Power Company d/b/a Xcel Energy filed an emissions reduction proposal under Minn. Stat. § 216B.1692. That statute authorizes electric utilities to file proposals to reduce emissions from large generating plants too old to be subject to the emissions restrictions applicable to new plants under the federal Clean Air Act. The statute also authorizes the Commission to grant rate recovery for the costs of these emissions reduction projects outside the general rate case process through an "emissions reduction-rate rider."

Under the terms of the Company's emissions reduction proposal, it would carry out extensive and costly renovations at three metropolitan-area power plants – King, High Bridge, and Riverside, converting two of the three plants from coal to natural gas and installing advanced pollution control equipment at all three.

Due to the proposal's technical complexity, its significant financial implications for ratepayers, and the widespread public interest it has generated, the Commission scheduled a series of public hearings, convened a technical conference to explore the financial consequences of converting two of the plants to natural gas, and established a 90-day period for the parties to meet, develop the record, exchange information, and attempt to clarify and narrow the issues in dispute.

On August 8, 2003, Xcel filed a petition seeking deferred accounting treatment of certain expenses it stated it must incur before December 31, 2003 to maintain the viability of the time line and cost projections contained in its emissions reduction proposal or, in its view, in any reasonably foreseeable modification of that proposal. These expenses would total approximately two million dollars. The entire amount would be directed toward the eventual renovation of the King plant and would include environmental permitting costs, site preparation design costs, and plant process and equipment design and specification costs.

II. Parties' Comments

The following parties filed comments on the Company's deferred accounting request:

- the Minnesota Department of Commerce
- the Minnesota Pollution Control Agency
- the Sierra Club Air Toxics Campaign
- Myer Shark
- The Izaak Walton League of America – Midwest Office and Minnesotans for an Energy-Efficient Economy, filing jointly
- North Star Steel
- the Residential and Small Business Utilities Division of the Office of the Attorney General

The only parties who opposed the request, in whole or in part, were the Sierra Club, Myer Shark, and North Star Steel.

North Star Steel supported the petition except to the extent that any of the costs deferred related to any decision to increase the capacity of the King plant or to convert the plant's fuel source from coal to another resource. The Sierra Club supported the request subject to a requirement that "any design engineering shall be done to permit later installation of mercury emissions control at King."

Meyer Shark opposed the request on the following grounds: (1) current economic conditions suggest that delaying construction is as likely to reduce costs as to increase them; (2) the Commission's notice of its intent to consider this petition was insufficient; (3) the deferred costs may include excessive profits, improvident expenditures, and costs already built into rates in the Company's research and development budget or related budgets.

III. Commission Hearing

The matter came before the Commission on October 2, 2003, when the Commission heard oral argument from the Company, the Sierra Club, and Mr. Shark. At hearing the Sierra Club withdrew an earlier request that the Commission also condition deferred accounting treatment of these costs on a finding that the Company had negotiated with stakeholders in good faith in regard to controlling mercury emissions from the King plant.

FINDINGS AND CONCLUSIONS

I. The Terms of the Request

In its filing the Company proposed to attach the following conditions to the deferred accounting treatment requested:

- The work to be performed is limited to those activities and cost items relating to the Company's ability to maintain the time schedule and underlying assumptions contained in the Company's submissions to the Commission.

- Expenditures are capped at a maximum of \$2 million and are limited in term to those incurred on or before December 31, 2003.
- The Company will account for these costs separately and will make them available for prudence review prior to incorporating them in rates.
- In the event that the Commission approves the Proposed or Alternative Plan or some other emissions reduction alternative at King, and the Company elects to proceed with the approved project pursuant to Minn. Stat. § 216B.1692, subd. 6, the costs would be eligible for inclusion for recovery under the rate rider associated with approved project.
- In the event that the Commission rejects any emissions reduction work at the King plant, the costs will be recorded in Account No. 182.3 – Other Regulatory Assets – as a deferred expense and included in the test year of the Company’s next rate case for recovery.
- Under either scenario, the costs incurred will remain subject to audit and prudence review prior to recovery from customers.

II. Commission Action

The Commission concurs with most of the parties that the deferred accounting treatment requested is appropriate for these expenses.

These expenses must be incurred if the Company’s emissions reduction proposal – as currently constituted or as foreseeably modified – is to remain viable. The public interest requires that it remain viable, since the Legislature has specifically found a need for careful consideration of such proposals.

Further, the Company does not face the time constraints that prompt this petition due to any lack of diligence on its part or anyone else’s. As discussed above, the nature of this proceeding has limited both parties’ and the Commission’s ability to expedite it. The case is technically and procedurally complex, requiring the expertise of at least three other regulatory agencies. It has sparked considerable public interest, requiring public hearings and informational sessions. It carries significant, long-term financial implications for ratepayers, requiring careful factual development.

Under these circumstances it would be inequitable to force the Company to choose between incurring substantial design and engineering costs with no possibility of recovery and jeopardizing its emissions reduction proposal by delaying the design and engineering work that would keep it viable.

The Commission will therefore grant the Company’s petition for deferred accounting, subject to the conditions proposed by the Company and subject to the additional condition that, if it is determined that construction on the King plant will not commence, the Company must propose an amortization period for the deferred costs that begins at the time the costs were recorded to the deferred account. This final requirement reflects the purpose of deferred accounting, which is to

preserve the opportunity to recover extraordinary out-of-test-year costs within a time frame reasonably related to when they were incurred, not to guarantee dollar-for-dollar recovery of deferred costs.

Further, the Commission will not impose the condition requested by the Sierra Club, that the Company conduct its design and engineering work in a manner designed to permit the later installation of equipment for mercury emissions control. Not only has the Company stated its intention to do this, but the Commission is concerned that it could undermine the negotiation process underway at its request by addressing isolated issues on the merits at the request of a single party at this stage of the case.

Neither will the Commission attach the conditions recommended by North Star Steel, which relate more directly to the merits of the Company's proposal than to the appropriateness of deferred accounting.

Finally, the Commission concludes that it has given adequate notice of its intention to consider this petition. The Commission has complied with all notice requirements set by statute and rule; in fact, it has exceeded those requirements by posting notice of the petition in the weekly calendar on its website. The other concerns raised by Mr. Shark go to the reasonableness and prudence of the deferred costs, which will be examined by all parties and addressed by the Commission if and when the Company seeks to recover the costs in rates.

For all these reasons, the Commission will grant the Company's petition, with the additional requirement set forth above.

ORDER

1. The Commission grants the Company's request for deferred accounting treatment, subject to the conditions set forth in its petition and repeated below, and subject to the final condition set forth below:
 - (a) The work to be performed is limited to those activities and cost items relating to the Company's ability to maintain the time schedule and underlying assumptions contained in the Company's submissions to the Commission.
 - (b) Expenditures are capped at a maximum of \$2 million and are limited in term to those incurred on or before December 31, 2003.
 - (c) The Company will account for these costs separately and will make them available for prudence review prior to incorporating them in rates.
 - (d) In the event that the Commission approves the Proposed or Alternative Plan or some other emissions reduction alternative at King, and the Company elects to proceed with the approved project pursuant to Minn. Stat. § 216B.1692, subd. 6, the costs would be eligible for inclusion for recovery under the rate rider associated with approved project.

- (e) In the event that the Commission rejects any emissions reduction work at the King plant, the costs will be recorded in Account No. 182.3 – Other Regulatory Assets – as a deferred expense and included in the test year of the Company’s next rate case for recovery.
- (f) Under either scenario, the costs incurred will remain subject to audit and prudence review prior to recovery from customers.
- (g) If it is determined that construction on the King plant will not commence, the Company shall propose an amortization period for the deferred costs that begins at the time the costs were recorded to the deferred account.

2.. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

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